IMPACT OF FINANCIAL REFORMS: EXPERIENCES IN THE EURO-MEDITERRANEAN AREA

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OUTLINE

A. Economic cooperation between Lebanon and the EU
B. Impact of financial reform on THE EU-Lebanon cooperation
C. FSB challenges
D. Enhancing the Euro-Med economic situation
A- ECONOMIC COOPERATION BETWEEN LEBANON AND THE EU
A - LEBANON AND THE EU: NATURAL TRADING PARTNERS

Import to Lebanon (left scale) 7%*
Export from Lebanon (right scale) 4%*

*Average Growth Rate
A- LEVANESE IMPORTS

Lebanese Imports’ Origin (2017)

EU; 42%

US; 7%

CHINA, 9%

EGYPT, 4%

TURKEY, 4%

Lebanese Imports by type of product (2017)

Mineral products; 23%

Chemicals, 11%

Vehicles, 10%

Machinery, 10%

Prepared foodstuffs, 7%
A- LEBANESE IMPORTS FROM EU

Lebanese Imports from EU by country (2017)

- ITALY, 21%
- GREECE, 16%
- GERMANY, 15%
- FRANCE, 9%
- SPAIN, 7%

Lebanese Imports from EU by type of product (2017)

- Mineral products; 32%
- Prepared foodstuffs, 7%
- Vehicles, 10%
- Machinery, 10%
- Chemicals, 15%
A- LEBANESE EXPORTS

Lebanese Exports' Destination (2017)

- China, 11%
- UAE, 11%
- EU, 9%
- Turkey, 5%
- Iraq, 6%
- Syria, 6%
- Saudi Arabia, 7%
- South Africa, 8%

Lebanese Exports by type of product (2017)

- Vehicles, 17%
- Prepared foodstuffs, 12%
- Machinery, 12%
- Pearls, Jewelry, 15%
- Base metals, 9%
- Prepared foodstuffs, 12%
- South Africa, 8%
- China, 11%
- UAE, 11%
- EU, 9%
- Turkey, 5%
- Iraq, 6%
- Syria, 6%
- Saudi Arabia, 7%
A- LEBANESE EXPORTS TO EU

Lebanese Exports to EU by country (2017)

- France, 18%
- Spain, 13%
- Germany, 12%
- United Kingdom, 11%
- Italy, 8%

Lebanese exports to EU by type of product (2017)

- Base metals, 22%
- Prepared foodstuffs, 20%
- Machinery, 9%
- Chemicals, 10%
- Works of art, 6%
A- ASSOCIATION AGREEMENT

• The European Union and Lebanon cooperation has been strengthened by the Association Agreement in force since April 2006.

• This agreement is essentially limited to trade in goods. It yields special access for Lebanese exports to the European market.

• It also provides improved access for European goods and services to the Lebanese market, and access to the country’s resources.

• The Association Agreement between the EU and Lebanon requires the Lebanese Government to carry out financial, economic, and administrative reforms, such as product sectors modernization and improving the business climate.
A- ECONOMIC COOPERATION BETWEEN LEBANON AND THE EU

The EU-Lebanon financial cooperation took the form of several initiatives throughout the recent years:

• Barcelona Process started in 1995
• European Neighborhood Policy since 2004 (renewed in 2015)
• Partnership Priorities and the EU-Lebanon Compact have been adopted on 11 November 2016
A- PARIS I, II, III

• Although not restricted to EU-Lebanon relationship, PARIS conferences represent important milestones in the recent economic history of Lebanon and many of the donor countries were EU countries.
  • Paris I (23 February 2001)
  • Paris II (23 November 2002)
  • Stockholm Conference (31 August 2006)
  • Paris III (25 January 2007)
A- PARIS IV

• Paris IV (6 April, 2018), otherwise known as the 'Cedar Conference‘, secured financing pledges of $10.2B in loans and $860M in grants for the first of three phases of the capital investment program (CIP).

• Paris IV is the second of three conferences in 2018 to support Lebanon:
  • ROME II (15 March, 2018), ministerial meeting in support of Lebanon’s armed forces and internal security forces,
  • Brussels II (24-25 April, 2018), which will focus on the Syrian refugee crisis.
B- IMPACT OF FINANCIAL REFORM ON THE EU-LEBANON COOPERATION
B- FINANCIAL REFORMS

- Lebanon carried out several major reforms recently:
  - The return to normally functioning state institutions
  - The endorsement of the 2018 state budget
  - The adoption of a new electoral law and preparations for the parliamentary elections in May 2018
  - The launching of legislation intended to kick-start the development of its oil and gas industry
  - The adoption of the public private partnership (PPP) law
B- FINANCIAL REFORMS

- The Lebanese government presented its “Vision for stabilization, growth and employment” during Paris IV, which includes four pillars for planned reforms:
  - Increasing the level of public and private investment
  - Fiscal Discipline and consolidation
  - Sectoral and structural reforms
  - Reinforcement and diversification of Lebanon’s productive sectors and the realization of its export potential

- Follow Up Mechanism
B- IMPACT OF FINANCIAL REFORM

• The impact of these reforms would include:
  • Sizeable GDP growth
  • Employment and business opportunities
  • Asserting Lebanon’s position as a leading financial center in the Middle East.
  • Increased access to financial assistance and technology transfer.
C- FSB CHALLENGES
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I. Application of international financial standards

Lebanon improved its adherence to international financial standards by requiring Banks and financial institutions to conform and even surpass Basel III requirements, by applying key prudential practices e.g.:

1. Minimum capital adequacy ratio,
2. Minimum capital for new banks
3. Liquidity ratios
4. Lending to related parties
5. Limits of facilities granted to a single entity
6. Foreign exchange exposure
7. Legal Reserve and Provision for General Banking Risk
8. Loan Classification and Provisioning
9. Basel committee standards for regulation and internal audit
10. Other International Standards (FATF, FATCA, IAS/IFRS…)
C- FSB CHALLENGES

II. Expanding the regulatory and supervisory perimeter

The banking and financial sector is currently regulated by the Banque du Liban (BDL), with close supervision to the financial activities conducted across the sector. BDL has expanded its regulatory and supervisory reach to include financial intermediaries, money dealers, specialized Credit Institutions and Leasing Companies as well as Electronic Transfer companies.

III. Management of foreign exchange risks

As the stability of the Lebanese pound is one of the two main goals of BDL, mitigating foreign exchange risks is a crucial action carried out by the BDL on a daily basis, taking into consideration the high rate of dollarization (68% in Jan 2018).
D- ENHANCING THE EURO-MED ECONOMIC SITUATION
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• Enhancing the Euro-Med economic situation requires deeper integration, which goes beyond the removal of barriers to trade and investment, to tackle:
  • Domestic services production that discriminate against foreigners,
  • Adherence of product standards to international norms,
  • Regulation of inward investments,
  • Enhancement of the competition policy,
  • Protection of intellectual property
  • Improvement of the rules surrounding access to government procurement

• Tentative benefits of deep integration:
  • Technology transfer and diffusion both through trade and FDI
  • Economies of scale in production
  • Institutional changes that lead to wide increases in productivity